

2015 LEAGUE OF WOMEN VOTERS OF KANSAS E-REPORT #21

Paul Johnson – June 19, 2015

THE KANSAS 'MARCH TO ZERO'

'March to Zero' is the catch phrase for the Governor's plan to eliminate the income tax in Kansas. Individual and corporate income taxes account for over 25% of the revenue to the State. Unless Kansas experiences exponential employment growth coupled with substantially expanded sales taxes, Kansas will face continual revenue shortfalls. With this 'march to zero' Kansas will most likely join the 'deep south' states that have greater income inequality, underfunded/inadequate public schools, second rate higher education, survival mode social services, faltering highways and skeleton public safety. Beyond this revenue mess, the anti-government conservative majority that runs Kansas government will continue to privatize public education, sell off more state assets (think state buildings and Kansas University Hospital) and convert more public services to private services through contracts with lobbyists and former staff members of the Governor's office. If the courts dare challenge and rule against this conservative orthodoxy, the Judiciary's budget will be negated and a constitutional crisis enjoined.

For the 'dark money' billionaires/millionaires that funded the \$30 million sleaze campaign to re-elect the Governor, they keep their annual tax cuts worth tens of millions of dollars. Working Kansans and seniors will fund those tax breaks with a higher sales tax. The state sales tax increases from 6.15% to 6.5% and Kansans will pay the second-highest state sales tax on food in the nation trailing only Mississippi. When local sales tax levies are added, most Kansans will pay the nation's highest tax on food. This total \$384 million tax package in **House Sub. for SB 270** has been called a 'band aide' effort at best. There are many questionable revenue projections on different parts of this bill. The Governor also has to find \$50 million more in budget cuts but these cuts cannot come from the public school block grant, Kansas Public Employee Retirement System (KPERs) contributions or bond payments. These exceptions shield over 50% of the State budget from reductions so the remainder of the State budget will be hit that much harder following five years of continuous program reductions.

The increase in the state sales tax generates \$164 million of the \$384 million total. Merchants have up to 30 days to implement this change so there will not be a full 12 months of sales tax increases. While charitable contributions would remain fully deductible and mortgage interest & property tax deductions cut by

50%, all other Kansas itemized deductions would be repealed thus generating \$97 million in new revenues. A tax amnesty for penalties and interest on certain delinquent taxes is hopefully going to raise \$30 million. A tax on the 'guaranteed payments' to the 333,000 income tax exempt business entities will hopefully generate \$23.7 million but questions remain whether accounting maneuvers will reclassify the 'guaranteed payment' into another income exempt category? The 50 cent cigarette tax increase will generate \$40 million in additional revenue. Individual income tax rates of 2.7% for the bottom tax bracket and 4.6% for the top tax bracket will be frozen through 2017 thus generating \$26.4 million in 2016. Starting in 2019, any growth beyond 2.5% in State revenues must be used for further income tax reductions. In **Senate Sub. for HB 2281** the privilege fee for Health Maintenance Organizations operating in Kansas is increased from 1% to 3.31%. These increased fees will be used to generate more federal Medicaid dollars and decrease the use of State General Funds by \$47 million in 2016.

This revenue experiment of cutting the taxes for the wealthy and hoping for significant economic growth was tried by President George W. Bush in 2000 when our Governor was a U.S. Senator. During the years of 2000 to 2008, the nation had little employment expansion while the nation's debt soared to deficit finance unnecessary wars and the creation of the Medicare part D drug program. The lost decade of employment growth in Kansas in the 2000's was primarily driven by national policy but our Governor blamed the policies of past Kansas governors. If consumption is the key to greater economic growth, how does increasing the sales tax not slow or halt expanded economic growth since consumer spending is responsible for 70% of the gross domestic product (GDP)? Consumption taxes are much more susceptible to the vagaries of the market economy. Another significant downturn in the economy as witnessed in 2009 will curtail consumer spending and threaten the funding of vital education, social service and public safety programs across Kansas. The 2016 Kansas Legislative session - followed by fall elections for all legislators - will be critically important to fix this continual fiscal mess and chart a course of fair, stable and reliable taxation.

COMMENTARY BY REPRESENTATIVE MELISSA ROOKER

This was sent just after midnight on June 11 when the Kansas House adjourned in the middle of a major tax vote:

'For more than 1,000 days, the Governor has known the state would be upside down like this and he's done nothing about it. Instead, he and his allies have touted the success of their tax plan and the miraculous way it has turned around the Kansas economy. In the real world, those of us who follow the data and actual numbers know Kansas lags far behind the rest of the US in terms of economic recovery. Our revenues have cratered, and the state blew through an ending balance of more than \$700 million in less than two years to cover the shortfalls.'

'So here we are on Day 111 of the 2015 legislative session – nearly \$1 million over what is budgeted for the legislature – voting on a tax package that balances the budget through smoke and mirrors, accounting tricks and short-term fixes while increasing the tax burden on ordinary Kansans. It continues the scheduled income tax rate cuts that have destroyed our revenue stream and have left us with an \$800 million hole in the budget.... It's time for people in Topeka to start listening to what taxpayers like us have been telling them all along – we need revenue reform that doesn't pit businesses and families against each other. That means a fair, stable and reliable fix that rights the ship and doesn't just patch a leak... Here's the irony: 330,000 businesses will continue to pay zero income tax while their employees foot the bill for the quality-of-life services like schools, roads and public safety that make Kansas a great place to do business.'

NATIONAL BIO AND AGRO-DEFENSE FACILITY (NBAF)

Groundbreaking for NBAF, a \$1.25 billion project by the U.S. Department of Homeland Security (DHS) took place in Manhattan, Kansas on June 11. The new facility will focus biosafety level 3 agriculture (BSL-3Ag) research on dangerous livestock diseases such as African swine fever and foot-and-mouth disease (FMD). It will also focus its BSL-4 research on such deadly pathogens as the Hendra and Nipah viruses, which are zoonotic pathogens that can be transmitted from animals to humans and for which no treatment is available.

There have been numerous, human-error-caused releases of deadly pathogens from BSL-3 laboratories both here and abroad over the past decade. A Government Accountability Organization (GAO) study conducted this month concludes that the federal government is not prepared to address a large-scale animal disease outbreak like an FMD outbreak. The GAO report found that federal agencies do not have enough veterinarians to respond to a major crisis, nor do they even know how many veterinarians they would need. The National Academy of Sciences independent study in 2010 concluded that the probability of

an infection resulting from a laboratory release of FMD from the NBAF site in Manhattan, Kansas approaches 70% over 50 years, with an economic impact to the U.S. cattle industry of \$9 to \$50 billion. Human error will be the most likely cause of an accidental pathogen release.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT (KLRD) REPORT

KLRD has published two documents so far on the major legislation that passed the 2015 Kansas Legislative session. A third report will be out soon listing the budget, the tax plan and several other final pieces of legislation.

<http://www.kslegresearch.org/KLRD-web/Publications.html>